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2Q18 Production and Sales Report

Vale achieved a new record of iron ore production for a second quarter

Vale achieved a new record of 96.8 Mt of iron ore production^[1] for a second quarter, despite the nationwide truck drivers' strike in May, with 12-day disruptions in production and logistics across Brazil, leading to force majeure being declared by many companies. Vale overcame these adversities using the flexibility of its supply chain, with transfers of supplies between sites, alternative use of railways to transport inputs, adjustment in mining methods and production plans and change in mill process parameters. Vale recognizes and thanks the creativity and resilience of its teams to achieve a production record in such an environment.

Record sales volumes for a second quarter of iron ore and pellets totaled 86.5 Mt in 2Q18, 4.8 Mt higher than in 2Q17. The record was achieved despite the increase of offshore stocks to support the ongoing blending activities.

Vale's premium and flexible product portfolio is being tailored to maximize margin and to benefit from the increase in the "flight to quality" trend. The market premium for the 65% of iron ore content over the 62% in 2Q18 increased from an

average of US\$ 16.0/t in 1Q18 to an average of US\$ 20.2/t in 2Q18.



Vale's sales mix improved substantially year-on-year, as a result of the S11D ramp-up and the decision to progressively reduce low grade ore production. The share of premium products (pellets, Carajás, blended ores, pellet feed and sinter feed low alumina) increased to 77% in 2Q18 from 68% of total sales in 2Q17 maximizing the benefit of rising market premiums. Consequently, contributions of quality and average premium to Vale's realized CFR/FOB wmt price increased to US\$ 7.1/t in 2Q18 vs. US\$ 5.2/t in 1Q18 and US\$ 1.2/t in 2Q17.

The Northern System achieved a production record for a second quarter of 46.2 Mt in 2Q18, 11.4% higher than in 2Q17, due to the S11D ramp-up.

In 2H18 Vale's production profile indicates volumes over 100 Mt per quarter, supporting the production guidance for 2018, previously announced on Vale Day, of around 390 Mt.

Vale's pellet production achieved a record for a second quarter of 12.8 Mt, 0.6 Mt higher than in 2Q17 mainly due to the resumption of the Tubarão I and II pellet plants. With the restart of the São Luis pellet plant which is envisioned for 3Q18, Vale will reach approximately 55 Mt as its guidance production and benefit from the negotiated terms for pellet premiums averaging at US\$ 60/dmt for the year, an increase of more than US\$ 10/dmt vs. 2017.

In 2Q18 nickel production has increased to 66,200 t mainly due to (i) the return to production of the Matsusaka refinery in Japan after its scheduled maintenance shutdown in 1Q18; (ii) higher production in VNC, due to higher sales of nickel oxide from VNC in support of high value opportunities, a product that has a shorter time to market when compared to refining into Utility Nickel in Dalian[2]; and, (iii) the return to production of Sudbury's Coleman mine in April.

Copper production reached 97,900 t in 2Q18, 4,600 t higher than in 1Q18, due to the return to production of Sudbury's Coleman mine in April and the strong performance of the Salobo operation.

Cobalt production at Long Harbour continued its successful ramp-up, reaching output of 415 t in 2Q18, 11% and 19% higher than in 1Q18 and 2Q17, respectively. Cobalt product purity improved in line with the optimization of the Long Harbour refinery, while the shift from cobalt cake to cobalt rounds creates opportunity for further value creation. Vale's total cobalt production was 1,302 t in 2Q18, in line with 1Q18. Cobalt production is anticipated to increase in 2H18 as feed from the Coleman mine in Sudbury is processed through the Port Colborne refinery.

The contained volume of gold as a byproduct in the nickel and copper concentrates reached 114,000 oz in 2Q18, in line with 1Q18.

Coal production totaled 2.9Mt in 2Q18, 18.1% higher than 1Q18, as the adverse conditions in the mine site in 1Q18 were only overcome during the first part of 2Q18, preventing a faster recovery in the quarter. In 2Q18 new trucks and excavators were received and are being assembled to support the increase in production volume in 2H18.

Production summary

000' metric tons						% change		
	2Q18	1Q18	2Q17	1H18	1H17	2Q18/1Q18	2Q18/2Q17	1H18/1H17
Iron ore ¹	96,755	81,953	91,849	178,707	178,048	18.1%	5.3%	0.4%
Pellets	12,838	12,780	12,215	25,619	24,637	0.5%	5.1%	4.0%
Manganese Ore	421	434	507	855	1,051	-3.0%	-17.0%	-18.6%
Coal	2,871	2,432	3,037	5,303	5,471	18.1%	-5.5%	-3.1%
Nickel	66.2	58.6	66.0	124.8	137.5	13.0%	0.3%	-9.2%
Copper ²	97.9	93.3	100.8	191.2	208.3	4.9%	-2.9%	-8.2%
Cobalt (metric tons)	1,302	1,327	1,412	2,629	2,672	-1.9%	-7.8%	-1.6%
Gold (000' oz troy)	114	113	110	227	215	0.9%	3.6%	5.6%

¹ Including third party purchases, run-of-mine and feed for pelletizing plants.

² Excluding Lubambe's attributable production.

Sales summary

000' metric tons						% change		
	2Q18	1Q18	2Q17	1H18	1H17	2Q18/1Q18	2Q18/2Q17	1H18/1H17
Iron ore ¹	73,290	71,221	69,262	144,510	134,577	2.9%	5.8%	7.4%
Pellets	13,231	13,125	12,479	26,356	25,062	0.8%	6.0%	5.2%
Manganese Ore	239	338	392	577	588	-29.3%	-39.0%	-1.9%
Coal	2,509	2,497	3,121	5,005	5,689	0.5%	-19.6%	-12.0%
Nickel	61.6	57.9	71.4	119.5	143.5	6.4%	-13.7%	-16.7%
Copper	94.6	87.7	102.8	182.3	190.5	7.9%	-8.0%	-4.3%

¹ Including third party purchases and run -of-mine.

For further information, please find the complete report in the following link:

<http://www.vale.com/EN/investors/information-market/quarterly-results/Pages/default.aspx>

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